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Message Text

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ORIGIN XMB-04

INFO OCT-01 ARA-06 ISO-00 AID-05 CIAE-00 COME-00 EB-04

FRB-01 INR-05 NSAE-00 RSC-01 TRSE-00 OPIC-06 SP-02

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66611
DRAFTED BY: XMB:GWBOGDANOFF/PEP
APPROVED BY: EB/OCA/REP:JBRABENS
XMB: WARREN W. GLICK, ACTING EXECUTIVE VICE PRESIDENT
ARA/LA:JSLATTERY (PHONE)
---------- 100781
O R 11247Z OCT 74
FM SECSTATE WASHDC
TO AMCONSUL RIO DE JANEIRO IMMEDIATE
INFO AMEMBASSY BRASILIA
AMCONSUL SAO PAULO

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E.O. 11652: NA
TAGS: EFIN, BR

SUBJECT: CIA. METROPOLITANA DE CONSTRUCOES

REF: RIO 3615, 3536

1. PLEASE CONVEY THE FOLLOWING MESSAGE FROM WILLIAM J. CASEY TO MR. ARY DOS SANTOS PINTO, MINISTRY OF FINANCE.

2. IN RESPONSE TO YOUR REQUEST MADE TO REPRESENTATIVES OF EXIMBANK DURING MEETING OCTOBER 7, 1974, THE FOLLOWING INFORMATION IS SUBMITTED REGARDING BRAZILIAN COMPANIES IN THE HIGHWAY CONSTRUCTION INDUSTRY, WHICH HAVE EXPERIENCED DIFFI-CULTIES IN MAKING PAYMENTS FOR THE PURCHASE OF UNITED STATES EQUIPMENT. SIX FIRMS HAVE BEEN OR ARE PRESENTLY IN DEFAULT IN PAYMENT OF OBLIGATIONS WHICH AR INSURED OR GUARANTEED BY EXIMBANK.
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A) CIA. METROPOLITANA DE CONSTRUCOES, RIO DE JANEIRO
TOTAL PRINCIPAL AMOUNT OUTSTANDING - DOLS 2,900,000 OWED FOR
PURCHASE OF CATERPILLAR AND GENERAL MOTORS EQUIPMENT OF WHICH
DOLS 850,000 IS CURRENTLY IN DEFAULT.

B) ENGENHARIA E EMPRENDIMENTOS, "SETAL, S.A.," SAU PAULO
TOTAL PRINCIPAL AMOUNT OUTSTANDING - DOLS 1,600,000 OWED FOR
PURCHASE OF ALLIS CHALMERS EQUIPMENT OF WHICH DOLS 323,000
IS PAST DUE. COMPANY IN BANKRUPTCY 9/24/74.

C) CONSTRUCTORA AUXILIAR DE TERRAPLENAGEN "COTERRA, S.A.,"
RIO DE JANEIRO TOTAL PRINCIPAL AMOUNT OF DEBT OUTSTANDING -
DOLS 908,000 OWED FOR PURCHASE
OF ALLIS CHALMERS EQUIPMENT, OF WHICH DOLS 101,000 IS PAST
DUE.

D) EMPRESA DE CONSTRUCOES, S.A. "ECOLL," BELO HORIZONTE
TOTAL PRINCIPAL OUTSTANDING - DOLS 360,000 OWED FOR PURCHASE
OF ALLIS CHALMERS EQUIPMENT, OF WHICH DOLS 90,000 IS PAST DUE.

E) SOCIEDADE TECNICA DE ENGENHARIA E CONSTRUCOES, S.A. "SOTENCO,"
BELO HORIZONTE
TOTAL PRINCIPAL OUTSTANDING - DOLS 332,000 OWED FOR PURCHASE
OF ALLIS CHALMERS EQUIPMENT OF WHICH DOLS 72,000 IS PAST DUE.

F) SOCIEDADE CONSTRUCTORA TRIANGULO S.A., BELO HORIZONTE
TOTAL PRINCIPAL AMOUNT OUTSTANDING - DOLS 1,716,000 FOR
PURCHASE OF EQUIPMENT FROM ALLIS CHALMERS.

3. ALL OF THE ABOVE FIRMS HAVE PURCHASED HEAVY ROAD BUILDING
EQUIPMENT AND THE FINANCED PORTION OF EACH PURCHASE IS PAYABLE
IN TEN SEMI-ANNUAL INSTALLMENTS.

4. WHILE IN BRAZIL, EXIMBANK REPRESENTATIVES MADE INQUIRIES
REGARDING THE CONSTRUCTION INDUSTRY, PARTICULARLY REGARDING CIA.
METROPOLITANA, CONFERRING WITH VARIOUS COMPANIES ENGAGED
IN PUBLIC WORKS CONSTRUCTION, INCLUDING SEVERAL OF THE AFORE-
MENTIONED FIRMS, AND WITH DISTRIBUTORS AND COMMERCIAL BANKS
INCLUDING DR. TEOFILO DE AZEREDO SANTOS, PRESIDENT OF
THE BANKER'S ASSOCIATION. THE REPRESENTATIVES WERE ADVISED
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THAT THE DIFFICULTIES EXPERIENCED BY THE VARIOUS FIRMS IN
MEETING THEIR OBLIGATIONS COULD BE PRIMARILY ATTRIBUTED TO:

1) DELAYS IN THE PAYMENT, AND THE NONPAYMENT BY BRAZILIAN
GOVERNMENT ENTITIES OF MONIES OWED FOR WORK PERFORMED. IN THE
CASE OF METROPOLITANA, OVER FIFTY MILLION CRUZEIROS IS
CURRENTLY OWED TO THEM BY DNER AND CEASA;

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2) THE FACT THAT READJUSTMENT PROVISIONS OF GOVERNMENT CONSTRUCTION CONTRACTS HAVE BEEN INADEQUATE TO PERMIT REIMBURSEMENT OF COST INCREASES OF CONSTRUCTION MATERIALS AND FUEL;

3) THE INABILITY TO OBTAIN SUFFICIENT WORKING CAPITAL LOANS DUE TO TIGHT CREDIT POLICIES.

5. THE MINISTER OF PLANNING IS SAID TO BE URGING BANCO DO BRASIL TO EXTEND A LOAN TO METROPOLITANA IN AN AMOUNT SUFFICIENT TO CONSOLIDATE ITS DEBTS, BUT THIS HAS NOT YET BEEN ACCOMPLISHED.

6. AS EXPRESSED TO SR. PINTO BY EXIMBANK REPRESENTATIVES, THE BANK IS CONCERNED WITH THE PLIGHT OF CONTRACTORS NAMED ABOVE, PARTICULARLY METROPOLITANA. ALSO, EXIMBANK IS CONCERNED THAT THE INABILITY OF A NUMBER OF BRAZILIAN PUBLIC WORKS CONTRACTORS TO MEET OBLIGATIONS MAY BE INDICATIVE OF AN INDUSTRY-WIDE INCIPIENT FINANCIAL PROBLEM, WHICH IF UNCHECKED, COULD SERIOUSLY IMPAIR THE ABILITY OF THE BRAZILIAN PUBLIC WORKS CONTRACTING INDUSTRY TO OBTAIN CREDIT FOR PURCHASES OF EQUIPMENT NEEDED TO CARRY OUT LARGE NEW PUBLIC WORKS PROJECTS. INGERSOLL

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